

# CRS Report for Congress

## Russian Political, Economic, and Security Issues and U.S. Interests

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Stuart D. Goldman  
Specialist in Russian and Eurasian Affairs  
Foreign Affairs, Defense, and Trade Division



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# Russian Political, Economic, and Security Issues and U.S. Interests

## Summary

First Deputy Prime Minister Dmitri Medvedev, President Putin's chosen successor and long-time protege, was elected President on March 2, 2008 with about 70% of the vote. Medvedev had announced that if elected, he would propose Putin as Prime Minister. The Putin regime has already brought TV and radio under tight state control and virtually eliminated effective political opposition, assuring this "transition." The Kremlin's Unified Russia party had previously swept the parliamentary election (December 2, 2007), winning more than two-thirds of the seats in the Duma.

The economic upturn that began in 1999 is continuing. The GDP, domestic investment, and the general living standard have been growing impressively after a decade-long decline, fueled in large part by profits from oil and gas exports. Inflation is contained, there is a budget surplus, and the ruble is stable. Some major problems remain: 15% of the population live below the poverty line, foreign investment is relatively low, and crime, corruption, capital flight, and unemployment remain high.

Russian foreign policy has grown more self-confident, assertive and anti-western, fueled by its perceived status as an "energy superpower." Russia's drive to reassert dominance in and integration of the former Soviet states is most successful with Belarus and Armenia but arouses opposition in Georgia, Ukraine, Azerbaijan, and Moldova. The Commonwealth of Independent States as an institution is failing. Washington and Moscow have found some common ground on the Iranian and North Korean nuclear concerns, but tension is rising on other issues such as Kosovo and the proposed U.S. missile defense deployment in Poland and the Czech Republic.

The military has been in turmoil after years of severe force reductions and budget cuts. The armed forces now number about 1.2 million, down from 4.3 million Soviet troops in 1986. Readiness, training, morale, and discipline have suffered. Russia's economic revival has allowed Putin to increase defense spending. Major weapons procurement, which virtually stopped in the 1990s, has begun to pick up. Some high-profile activities such as multi-national military exercises, Mediterranean and Atlantic naval deployments, and strategic bomber patrols, have resumed.

After the Soviet Union's collapse, the United States sought a cooperative relationship with Moscow and supplied over \$14 billion to encourage democracy and market reform, for humanitarian aid, and for WMD threat reduction in Russia. Direct U.S. foreign aid to Russia under the Freedom Support Act fell in the past decade, due in part to congressional pressure. U.S. aid in the form of WMD threat reduction programs, and indirect U.S. aid through institutions such as the IMF, however, was substantial. The United States has imposed economic sanctions on the Russian government and on Russian organizations for exporting nuclear and military technology and equipment to Iran and Syria. Restrictions on aid to Russia are in the FY2007 foreign aid bill. This CRS report will be updated regularly.

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# Russian Political, Economic, and Security Issues and U.S. Interests

## Most Recent Developments

On September 12, 2007, Putin dismissed Prime Minister Mikhail Fradkov and named the little-known Victor Zubkov as his replacement.

On October 1, 2007, Putin announcement that he would run for parliament at the head of the United Russia ticket and hinted that he might take the post of prime minister after his second presidential term ends in March 2008.

On October 12, 2007, Secretaries Rice and Gates met in Moscow with President Putin to discuss U.S. proposed missile defense deployments in Europe.

On November 7, 2007, the Duma voted unanimously to suspend Russia's adherence to the Treaty on Conventional Forces in Europe (CFE). On November 16, the upper chamber followed suit and Putin signed the measure into law.

On December 2, 2007, the United Russia Party, led by Putin, scored a landslide victory in parliamentary elections, winning 315 of 450 seats in the Duma.

On December 10, 2007, Putin named First Deputy Prime Minister Dmitri Medvedev his choice as Russia's next president. The next day, Medvedev said that if elected, he would ask Putin to serve as Prime Minister. Putin formally accepted the offer on December 17.

On December 26, 2007, Iran's Defense Minister announced that Russia would sell Iran the S-300 anti-aircraft missile-defense system "on the basis of a contract signed with Russia in the past." Moscow subsequently confirmed the report.

On December 27, 2007, U.S. aircraft manufacturer Boeing signed a deal worth more than \$1 billion to buy titanium from the Russian company VSMPO-Avisma.

On January 14, 2008, A senior Russian Air Force commander announced that the U.S. and Russian Air Forces plan to hold joint antiterrorism exercises in the summer aimed at improving communication interoperability.

On March 2, 2008, First Deputy Prime Minister Dmitri Medvedev, President Putin's chosen successor, was elected President with about 70% of the vote.

On March 3, 2008, Russia voted with the United States, France, the U.K. and China in the UN Security Council to impose a third round of limited sanctions

against Iran in response to that country's continued defiance of UN calls to suspend its nuclear enrichment activities.

## **Post-Soviet Russia and Its Significance for the United States**

Russia was by far the largest of the former Soviet republics. Its population of 142 million (down from 149 million in 1991) is about half the old Soviet total. Its 6.6 million square miles comprises 76.2% of the territory of the former Soviet Union and it is nearly twice the size of the United States, stretching across Eurasia to the Pacific, across 11 time zones. Russia also has the lion's share of the natural resources, industrial base, and military assets of the former Soviet Union.

Russia is a multinational, multi-ethnic state with over 100 nationalities and a complex federal structure inherited from the Soviet period. Within the Russian Federation are 21 republics (including Chechnya) and many other ethnic enclaves. Ethnic Russians, comprising 80% of the population, are a dominant majority. The next largest nationality groups are Tatars (3.8%), Ukrainians (3%), and Chuvash (1.2%). Furthermore, in most of the republics and autonomous regions of the Russian Federation that are the national homelands of ethnic minorities, the titular nationality constitutes a minority of the population. Russians are a majority in many of these enclaves. During Yeltsin's presidency, many of the republics and regions won greater autonomy. Only the Chechen Republic, however, tried to assert complete independence. President Putin has reversed this trend and rebuilt the strength of the central government vis-a-vis the regions.

The Russian Constitution combines elements of the U.S., French, and German systems, but with an even stronger presidency. Among its more distinctive features are the ease with which the president can dissolve the parliament and call for new elections and the obstacles preventing parliament from dismissing the government in a vote of no confidence. The Constitution provides a four-year term for the president and no more than two consecutive terms. The president, with parliament's approval, appoints a prime minister who heads the government. The president and prime minister appoint government ministers and other officials. The prime minister and government are accountable to the president rather than the legislature. President Putin was reelected to a second term in March 2004. The next presidential election is set for March 2, 2008. Putin is ineligible to run for a third consecutive term.

The bicameral legislature is called the Federal Assembly. The Duma, the lower (and more powerful) chamber, has 450 seats. In previous elections, half the seats were chosen from single-member constituencies and half from national party lists, with proportional representation and a minimum 5% threshold for party representation. In September 2004, President Putin proposed that all 450 Duma seats be filled by party list election, with a 7% threshold for party representation. This was signed into law in May 2005. The upper chamber, the Federation Council, has 168 seats, two from each of the 84 regions and republics of the Russian Federation. Deputies are appointed by the regional chief executive and the regional legislature.

In the December 2007 parliamentary election, the pro-Kremlin United Russia Party won 315 seats.

The judiciary is the least developed of the three branches. Some of the Soviet-era structure and personnel are still in place. Criminal code reform was completed in 2001 and trial by jury is being introduced, although it is not yet the norm. Federal judges, who serve lifetime terms, are appointed by the President and must be approved by the Federation Council. The courts are widely perceived to be subject to political manipulation and control. The Constitutional Court rules on the legality and constitutionality of governmental acts and on disputes between branches of government or federative entities. The Supreme Court is the highest appellate body.

Russia is not as central to U.S. interests as was the Soviet Union. With the dissolution of the U.S.S.R. and Russia greatly diminished, much of the Soviet military threat has disappeared. Yet developments in Russia are still important to the United States. Russia remains a nuclear superpower. It will play a major role in determining the national security environment in Europe, the Middle East, and Asia. Russia has an important role in the future of arms control, nonproliferation of weapons of mass destruction, and the fight against terrorism. Such issues as the war on terrorism, the future of NATO, and the U.S. role in the world will all be affected by developments in Russia. Also, Russia's economy is recovering and it is a potentially important trading partner. Russia is the only country in the world with more natural resources than the United States, including vast oil and gas reserves. It is the world's second largest producer and exporter of oil (after Saudi Arabia) and the world's largest producer and exporter of natural gas. It has a large, well-educated labor force and a huge scientific establishment. Also, many of Russia's needs — food and food processing, oil and gas extraction technology, computers, communications, transportation, and investment capital — are in areas in which the United States is highly competitive.

## Political Developments

Former President Boris Yeltsin's surprise resignation (December 31, 1999) propelled Vladimir Putin (whom Yeltsin had plucked from obscurity in August 1999 to be his fifth Prime minister in three years) into the Kremlin as Acting President. Putin's meteoric rise in popularity was due to a number of factors: his tough policy toward Chechnya; his image as a youthful, vigorous, sober, and plain-talking leader; and massive support from state-owned TV and other mass media. In March 2000, Putin was elected president in his own right. He won a second term four years later.

Putin, who was a Soviet KGB foreign intelligence officer for 16 years and later headed Russia's Federal Security Service (domestic component of the former KGB), is an intelligent, disciplined statist. His priorities appear to be strengthening the central government and restoring Russia's status as a great power.

On the domestic political scene, Putin early on won major victories over regional leaders, reclaiming authority for the central government that Yeltsin had allowed to slip away. First, Putin created seven super-regional districts overseen by

presidential appointees. Then he pushed legislation to change the composition of the Federation Council, the upper chamber of parliament — a body that was comprised of the heads of the regional governments and regional legislatures, giving those leaders exclusive control of that chamber and also parliamentary immunity from criminal prosecution. With Putin's changes, Federation Council Deputies are appointed by the regional leaders and legislatures, but once appointed, they are somewhat independent. Putin then won parliamentary approval of a bill giving the president the right to remove popularly elected regional leaders who violate federal law. In 2005, the Kremlin-controlled parliament gave Putin the power to appoint regional governors.

The Putin regime has taken nearly total control of nation-wide broadcast media. A key target was the media empire of Vladimir Gusinsky, which included Russia's only independent television network, NTV, which had been critical of Putin. Gusinsky was arrested in June 2000 on corruption charges and was later released and allowed to leave the country. The state-controlled gas monopoly Gazprom then took over NTV and appointed Kremlin loyalists to run it. The government then forced the prominent oligarch Boris Berezovsky to give up ownership of his controlling share of the ORT TV network. TV-6, the last significant independent Moscow TV station, was shut down under government pressure in 2002. The government has also moved against the independent radio network, Echo Moskvuy and other electronic media. In 2006, international news media reported that the Russian government had forced Russian radio stations to stop broadcasting programs prepared by the U.S.-funded Voice of America (VOA) and Radio Liberty (RL). Threats to revoke the stations' broadcasting licenses forced all but 4 or 5 of the more than 30 radio stations that had been doing so to stop broadcasting VOA and RL programs. Journalists critical of the government have been imprisoned, attacked, and in some cases killed, with impunity. The highly respected journalist and Chechen war critic Anna Politkovskaya was murdered in October 2006.

In the summer of 2003, the Russian government launched a campaign against Mikhail Khodorkovski, CEO of Yukos, then the world's fourth largest oil company. Khodorkovski, the wealthiest man in Russia, became a multi-billionaire in the 1990s in the course of the often corrupt privatization of state-owned assets under former president Yeltsin. Khodorkovski, however, subsequently won respect in the West by adopting open and "transparent" business practices while transforming Yukos into a major global energy company. Khodorkovski criticized some of Putin's actions, financed anti-Putin political parties, and hinted that he might enter politics in the future. After numerous searches and seizures of Yukos records and the arrest of senior Yukos officials, police arrested Khodorkovski on October 25. Prosecutors then froze Yukos stock worth some \$12 billion.

Khodorkovski's arrest is seen by many as politically motivated, aimed at eliminating a political enemy and making an example of him to other Russian tycoons. Many observers also saw this episode as the denouement of a long power struggle between two Kremlin factions: a business-oriented group of former Yeltsin loyalists and a group of Putin loyalists drawn mainly from the security services and Putin's home town of St. Petersburg. A few days after Khodorkovski's arrest, Presidential Chief of Staff Aleksandr Voloshin, reputed head of the Yeltsin-era group, resigned, as did several of his close associates, leaving the Kremlin in the

hands of “the policemen.” Khodorkovski went on trial in June 2004 on multiple criminal charges of tax evasion and fraud. In May 2005, Khodorkovski was found guilty and sentenced to nine years in prison and was sent to a penal camp in Siberia.

Yukos was broken up and its principal assets sold off to satisfy tax debts allegedly totaling \$28 billion. Yuganskneftegaz, the main oil production subsidiary of Yukos, was sold at a state-run auction, ostensibly to satisfy tax debts. The winning, and sole, bidder, Baikalfinansgrup, paid \$9.7 billion, about half of its market value, according to western specialists. The previously unheard-of Baikalfinansgrup is a group of Kremlin insiders headed by Igor Sechin, Deputy Head of the Presidential Administration and a close Putin associate. Baikalfinansgrup was soon purchased by Rosneft, a wholly state-owned Russian oil company. Sechin is Chairman of Rosneft’s Board of Directors. The de-facto nationalization of Yuganskneftegaz was denounced by Andrei Illarionov, then a senior Putin economic advisor, as “the scam of the year.” Since then, the government has re-nationalized or otherwise brought under its control a number of other large enterprises that it characterizes as “strategic assets.” These include ship, aircraft, and auto manufacturing, as well as other raw material extraction activities. At the same time, the Kremlin has installed senior officials to head these enterprises. For example, First Deputy Prime Minister Dmitri Medvedev (Putin’s hand-picked successor), is the Chairman of the Board of Gazprom, Russia’s giant natural gas monopoly. Sergei Ivanov, the other First Deputy Prime Minister and a close Putin confidant, is the Chairman of the Board of Autovaz, Russia’s largest auto manufacturer. This phenomenon of political elites taking the helm of many of Russia’s leading economic enterprises has led some observers to conclude that “those who rule Russia, own Russia.”

On September 13, 2004, in the aftermath of the bloody Beslan school hostage crisis (see below), President Putin proposed a number of changes to the political system, promptly approved by the legislature, that further concentrated power in his hands, necessitated, he said, by Russia’s intensified war against international terrorism. He proposed, *inter alia*, that regional governors no longer be popularly elected, but instead that regional legislatures confirm the president’s appointees as governors and that all Duma Deputies be elected on the basis of national party lists, based on the proportion of votes each party gets nationwide. The first measure makes regional governors wholly dependent on, and subservient to, the president, undermining much of what remained of Russia’s nominally federal system. The second measure eliminates independent deputies, further strengthening the pro-presidential parties that already controlled an absolute majority in the Duma. Putin and his supporters argued that these measures would help reduce corruption in the regions and “unify” the country, the better to fight against terrorism. Critics saw the proposals as further, major encroachments on the fragile democratic reforms of the 1980s and 1990s that had already suffered serious setbacks under Putin. They warned of Putin’s growing authoritarianism. President Bush, Secretary of State Powell, and many members of Congress voiced concern that Putin’s September 13 proposals threatened Russian democracy. A few months later, parliament passed a controversial Kremlin-proposed law regulating non-government organizations (NGOs), which Kremlin critics charge gives the government leverage to shut down NGOs that it views as politically troublesome. The U.S. and many European governments expressed concern about the NGO law. (See CRS Report RL32662, *Democracy in Russia: Trends and Implications for U.S. Interests*, January 23, 2007.)

On November 14, 2005, President Putin announced major high-level changes in the government. Presidential Administration head Dmitrii Medvedev was named First Deputy Prime Minister and put in charge of high-level “national priority projects.” Defense Minister Sergei Ivanov was promoted to Deputy Prime Minister and retained his Defense Ministry post. In February 2007, Ivanov was elevated to First Deputy Prime Minister. These two men were widely seen as the front runners to succeed Putin in March 2008.

On September 10, 2007, Putin made a surprise announcement dismissing Prime Minister Mikhail Fradkov — whom he had plucked from obscurity to take that post in 2005 — and nominated in his place the even more obscure Victor Zubkov, who had previously headed the Financial Monitoring Service, an arm of the Finance Ministry that investigates money-laundering. Zubkov is 65 years old and has no political power base or constituency of his own — other than Putin’s backing. Putin explained this move as necessary to “prepare the country” for forthcoming elections, which immediately triggered speculation that Zubkov might be Putin’s choice for president in 2008, perhaps as a “place holder,” a mechanism that would allow Putin to retain control and/or return to the presidency after a brief interregnum. This brought the issue of the “Putin succession,” which had been heating up since 2006, to a full boil.

But in Russia’s election cycle, the vote for president (March 2, 2008) comes three months after the parliamentary election (December 2, 2007) which was seen as a harbinger of the presidential contest. The Kremlin decided to make the 2007 parliamentary election a referendum on Putin and Putinism. And despite Putin’s apparent genuine popularity, they were determined to take no chances on the outcome. In the run-up to the Duma election, the authorities used myriad official and unofficial levers of power and influence to assure an overwhelming victory for United Russia, the main Kremlin party. Putin’s October 1, 2007 announcement that he would run for parliament at the head of the United Russia ticket made the outcome doubly sure. The state-controlled media heavily favored United Russia and largely ignored or disparaged the opposition. Opposition party literature was seized and their rallies often shut down or harassed. Potentially popular opposition candidates were bought off, intimidated, or barred from running on “legal technicalities.” In March 2007, for example, the Supreme Court ruled that Vladimir Ryzhkov’s Republican Party — one of the few remaining liberal democratic parties — must be disbanded because it violated the 2004 law requiring parties to have at least 50,000 members and 45 regional offices. Russian authorities effectively prevented the main election observing body of the Organization for Security and Cooperation in Europe (OSCE) from sending an observer team, first by limiting their number to 70 (compared to 450 OSCE observers for the previous Duma election) and then delaying issuance of visas until the last minute, thus blocking normal monitoring of the election campaign.

The preordained result of the December 2, 2007 balloting for the Duma was a sweep by United Russia, which reportedly won 64.3% of the popular vote and 315 of the 450 seats — more than the two-thirds majority required to amend the constitution. A second pro-Kremlin party, A Just Russia — widely believed to have been created by Kremlin “political technologists” in 2007 to draw leftist votes away from the Communists — won 7.74 percent of the vote and 38 seats. The platforms of United Russia and A Just Russia consisted of little more than “For Putin!”

Vladimir Zhirinovsky's misnamed Liberal Democratic Party of Russia (LDPR), with 8.14% of the vote, won 40 seats. Despite Zhirinovsky's buffoonery and reputation for right-wing extremism, the LDPR is also a reliable supporter of Putin in the Duma. Thus, the Kremlin can count on the votes of 393 of the 450 Duma Deputies. The only opposition party in the Duma is the Communist Party, which, according to the official vote count, won 11.57% of the vote and 57 seats. The remaining parties failed to cross the 7% threshold required to win seats in the legislature. The traditional liberal democratic parties, Yabloko and the Union of Rightist Forces, reportedly received 1.59% and 0.96% of the vote, respectively. The officially declared voter turnout was 63%. (See CRS Report RS22770, *Russia's December 2007 Legislative Election: Outcome and Implications*, December 10, 2007.)

Despite some allegations of ballot-box stuffing, voter intimidation, and other "irregularities,"<sup>1</sup> there is little doubt that by dint of Putin's genuine popularity, an honest vote count would still have given United Russia a resounding victory. The main problem with the election was not the vote count, but the entire process leading up to the balloting. In the words of an OSCE Parliamentary Assembly official, "the executive branch acted as though it practically elected the parliament itself."

On December 10, barely a week after the Duma election, Putin announced his choice for president: Dmitri Medvedev. One day after his anointment, Medvedev announced that, if elected, he would ask Putin to serve as Prime Minister. One week later, Putin formally accepted this offer. This carefully choreographed arrangement presumably was meant to assure political continuity for Putin and those around him.

On March 2, 2008, Medvedev easily won election as Russia's next president, with 70% of the vote. The Kremlin made sure that the outcome was never in doubt. News coverage was skewed overwhelmingly in Medvedev's favor, especially TV news, the principal source of political news for most Russians. The previous format of "all-Putin, all the time" was shifted to Medvedev.<sup>2</sup> Like Putin before him, Medvedev refused to participate in public debates with any of his rivals. Moscow also imposed the same restrictions on the OSCE's election observers as during the Duma election, with the same result: the OSCE refused to send election observers under the conditions imposed by Moscow. Election commissions in the United States, the United Kingdom, Spain, France, and Germany all officially informed Moscow that they would not observe the presidential ballot.<sup>3</sup>

The Putin manipulated election laws and regulations to block "inconvenient" candidates such as former Prime Minister Mikhail Kasyanov and former chess champion Gary Kasparov from getting onto the ballot. In the end there were three candidates besides Medvedev. The LDPR nominated Vladimir Zhironovsky and the

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<sup>1</sup> The embattled North Caucasus regions of Chechnya, Ingushetia, and Dagestan reported heroically Soviet-era voter turnout of 99%, 98% and 92% respectively, with United Russia gaining 99% of the vote in Chechnya and Ingushetia and 89% in Dagestan.

<sup>2</sup> "Study Shows Medvedev Benefits from Massive Media Advantage," RFE/RL, *Newsline*, January 23, 2008; Peter Finn, "Prime Time for Putin's Anointed," *Washington Post*, January 30, 2008.

<sup>3</sup> RFE/RL, *Newsline*, February 5, 20, 2008.

Communist Party nominated its long-time leader, Gennady Zyuganov. The fourth was the little-known Andrei Bogdanov, leader of the tiny Democratic Party.<sup>4</sup>

Medvedev will be inaugurated as president of the Russian Federation on May 7. The 42 year-old Medvedev, a long-time Putin protégé, headed the Presidential Administration before Putin made him First Deputy Prime Minister in 2005. Like Putin and many of the Kremlin inner circle, Medvedev is a native of St. Petersburg (formerly Leningrad). But unlike so many of the inner circle, he does not have a background in the security services. His academic training is as a lawyer. He is viewed by many in Russia and the West as one of the most liberal of the generally illiberal cadre surrounding Putin. All agree that he is a Putin loyalist.

Although there was no doubt that Medvedev would win the election, there is considerable uncertainty about the future relationship between President Medvedev and Prime Minister Putin. Competing scenarios and rumors abound. Some speculate that Putin's obedient Duma majority may amend the constitution to shift power from the president to the prime minister. But Russia's super-presidential constitution would require a major re-write to implement that. Others suggest that President Medvedev may voluntarily cede substantial power to Prime Minister Putin, allowing the mentor to continue wielding real power. But such a "dual power" arrangement is viewed by some observers as inherently unstable. Another scenario envisions Medvedev resigning after a "decent interval," necessitating a new presidential election in which Putin would be eligible to run, since he would not have served more than two *consecutive* terms. Alternatively, Putin might remain as prime minister for a year or two while making sure that Medvedev is an able and loyal successor — and be prepared to push Medvedev aside if the younger man proved unsatisfactory. The future is murky.

## Chechnya

In 1999, Islamic radicals based in Russia's break-away republic of Chechnya launched armed incursions into neighboring Dagestan, vowing to drive the Russians out and create an Islamic state. At about the same time, a series of bombing attacks against apartment buildings in Moscow and other Russian cities killed some 300 people. The new government of then-Prime Minister Putin blamed Chechen terrorists and responded with a large-scale military campaign. Russian security forces may have seen this as an opportunity to reverse their humiliating 1996 defeat in Chechnya. With Moscow keeping its (reported) military casualties low and Russian media reporting little about Chechen civilian casualties, the conflict enjoyed strong Russian public support, despite international criticism. After a grinding siege, Russian forces took the Chechen capital, Grozny, in February 2000 and in the following months took the major rebel strongholds in the mountains to the south. Russian forces killed tens of thousands of civilians and drove hundreds of thousands of Chechen refugees from their homes.

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<sup>4</sup> This party, seen by many as a Kremlin-backed pseudo-opposition group, won fewer than 90,000 votes nation-wide in the December 2007 Duma election.

In March 2003, Russian authorities conducted a referendum in Chechnya on a new Chechen constitution that gives the region limited autonomy within the Russian Federation. Moscow claims it was approved by a wide margin. In October 2003, the Moscow-appointed head of the Chechen Administration, Akhmad Kadyrov, was elected President of the republic. Russian hopes that these steps would increase political stability and reduce bloodshed were disappointed, as guerilla fighting in Chechnya and suicide bomb attacks in the region and throughout Russia continued. On May 9, 2004, Kadyrov was assassinated by a bomb blast in Grozny, further destabilizing Chechnya. On August 29, Alu Alkhanov, Moscow's preferred candidate, was elected President of Chechnya, replacing Kadyrov.

Many foreign governments and the U.N. and Organization for Security and Cooperation in Europe (OSCE), while acknowledging Russia's right to combat separatist and terrorist threats on its territory, criticized Moscow's use of "disproportionate" and "indiscriminate" military force and the human cost to innocent civilians and urged Moscow to pursue a political solution. Although Moscow has suppressed large-scale Chechen military resistance, it faces the prospect of prolonged guerilla warfare. Russia reportedly has lost over 15,000 troops in Chechnya (1999-2006), comparable to total Soviet losses in Afghanistan (1979-1989). Russian authorities deny there is a "humanitarian catastrophe" in the North Caucasus and strongly reject foreign "interference" in Chechnya. The bloodshed continues on both sides. Russian forces regularly conduct sweeps and "cleansing operations" that reportedly result in civilian deaths, injuries, and abductions. Chechen fighters stage attacks against Russian forces and pro-Moscow Chechens in Chechnya and neighboring regions and terrorist attacks against civilian targets throughout Russia.

On September 1, 2004, a group of heavily armed fighters stormed a school in the town of Beslan, taking some 1,150 children, teachers, and parents hostage and demanding the withdrawal of Russian forces from Chechnya. Two days later, in a chaotic and violent battle, 330 hostages and nearly all the pro-Chechen fighters were killed by explosives set by the hostage-takers and by gunfire from all sides. Radical Chechen field commander Shamil Basaev later claimed responsibility for the Beslan school assault. However, Aslan Maskhadov, the nominal political leader of Chechnya's separatist movement, denounced the school attack and suicide bombings against civilian targets as unjustifiable acts of terrorism. Maskhadov, who was elected President of Chechnya in 1997, was seen by some as a relatively moderate leader and virtually the only possible interlocutor if Moscow sought a political resolution to the conflict. Putin's government labeled Maskhadov, like all Chechen rebels, as a terrorist and refused to negotiate with him. On March 8, 2005, Russian authorities announced that they had killed Maskhadov in a shoot-out in Chechnya, apparently extinguishing what little hope remained for a political settlement. Chechen rebel field commanders named Abdul-Khalim Sadulaev President and vowed to continue their struggle for independence.

In succeeding months, Russian forces eliminated many Chechen rebel field commanders. On June 17, 2006, Chechen rebel president Sadulaev was killed in a fire fight by Russian federal forces. Three weeks later, Basaev, the most prominent and notorious Chechen rebel field commander, was killed in an explosion. Moscow's success in eliminating so many Chechen rebel leaders and inflicting losses

on rebel bands leads some to speculate that the back of the resistance has been broken. Nevertheless, sporadic attacks against Russian forces and pro-Moscow officials continue in Chechnya and neighboring regions. (See CRS Report RL32272, *Bringing Peace to Chechnya? Assessments and Implications*.)

## Economic Developments

After the collapse of the Soviet Union, Russia experienced widespread economic dislocation and a drop of close to 50% in GDP. Conditions worse than the Great Depression of the 1930s in the United States impoverished much of the population, some 15% of which is still living below the government's official (very low) poverty level. Russia is also plagued by environmental degradation and ecological catastrophes of staggering proportions; the near-collapse of the health system; sharp declines in life expectancy and the birth rate; and widespread organized crime and corruption. The population has fallen by about 6 million since 1991, despite net in-migration of 5 million mostly ethnic Russians from other former Soviet republics.

Against this background of near collapse, in 1999 the economy began a remarkable, and sustained, recovery. This was due partly to the sharp increase in the price of imports and increased price competitiveness of Russian exports caused by the 74% ruble devaluation in 1998. The surge in the world price of oil and gas also buoyed the economy. From 1999 to 2007, Russia's GDP, in current dollars, quintupled from \$200 billion to \$1.2 trillion, an average growth rate of 25% per year. In inflation-adjusted real terms, economic growth was a less astounding, but still impressive, 6.7%. In addition, Russia virtually eliminated its public foreign debt which, in 1999, had grown to 100% of GDP. Russia's hard currency reserves exceed \$450 billion, the third largest in the world after China and Japan. And Russia has also established a "rainy day" stabilization fund of more than \$150 billion. Although some of Putin's early economic reforms (see below) contributed to this reversal of fortune, Putin is more the beneficiary than the cause of Russia's economic revival.<sup>5</sup> Nevertheless, in Russia Putin generally gets credit for the recovery, which is a major factor in his popularity.

Not everything is bright in this picture, however. While Russia is not a "petro-state" in the classic sense, its economy is very heavily dependent on oil and gas, which account for 63% of Russia's exports and 50% of total state revenues. Manufacturing has not recovered from the Soviet collapse and agriculture remains moribund. Investment in the energy sector is not keeping pace with requirements and oil and gas production are stagnating. At the same time, inflation is increasing, from 7% at the beginning of 2007 to 11% by year's end, and may be headed toward 15% in 2008.<sup>6</sup>

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<sup>5</sup> Anders Aslund, "The Russian Economy Facing 2017," in *Alternative Futures for Russia to 2017*, by Andrew C. Kuchins, Center for Strategic and International Studies, Washington, D.C., November 2007.

<sup>6</sup> *Ibid.*

## Economic Reform

In January 1992, Yeltsin launched a sweeping economic reform program developed by Acting Prime minister Yegor Gaidar. The Yeltsin-Gaidar program wrought fundamental changes in the economy. Although the reforms suffered many setbacks and disappointments, they are widely believed to have carried Russia beyond the point of no return as far as restoring the old Soviet economic system is concerned. The Russian government removed controls on the vast majority of producer and consumer prices in 1992. Many prices have reached world market levels. The government also launched a major program of privatization of state property. By 1994, more than 70% of industry, representing 50% of the workforce and over 62% of production, had been privatized, although workers and managers owned 75% of these enterprises, many of which have not still been restructured to compete in market conditions. Critics charged that enterprises were sold far below their true value to “insiders” with political connections.

Putin initially declared reviving the economy his top priority. His liberal economic reform team formulated policies that won G-7 (now G-8, with Russia as a full member) and IMF approval in his first term. Some notable initiatives include a flat 13% personal income tax and lower corporate taxes that helped boost government revenue and passage of historic land privatization laws. In May 2004, Russia reached agreement with the EU on Russian accession to the WTO. EU leaders reportedly made numerous economic concessions to Moscow. Russia agreed to sign the Kyoto Protocol and roughly double the price of natural gas domestically by 2010. In November 2006, U.S. and Russian officials signed a bilateral agreement on Russia’s accession to the WTO, thus completing a major step in the accession process. Russia still needs to complete negotiations with working party members.(See CRS Report RL31979, *Russia’s Accession to the WTO*.)

In Putin’s second term, massive profits from oil and gas exports and related revenues have made it easier for the government to put off politically difficult, but necessary, decisions on structural economic reform. Reform was further undermined by the Kremlin’s take-over of oil giant Yukos, and subsequent re-nationalizations, which increased inefficiencies and corruption and darkened the investment climate. Putin is turning away from market reform toward greater government control of “strategic sectors” of the economy, with top government officials being put into leadership positions in many of Russia’s largest economic enterprises.

## Foreign Policy

In the early 1990s, Yeltsin’s Russia gave the West more than would have seemed possible. Moscow cut off military aid to the Communist regime in Afghanistan; ordered its combat troops out of Cuba; committed Russia to a reform program and won IMF membership; signed the START II Treaty that would have eliminated all MIRVed ICBMs (the core of the Soviet Strategic Rocket Forces); and radically reduced Russian force levels in many other categories. The national security policies of Yeltsin and Foreign Minister Andrei Kozyrev came to be strongly criticized at home, not only by hardline communists and ultra nationalists but also by

many centrists and prominent democrats, who came to agree that the Yeltsin/Kozyrev foreign policy lacked a sense of national interest and was too accommodating to the West — at Russia's expense.

In 1995, Yeltsin replaced Kozyrev as Foreign Minister with Yevgeny Primakov, who was decidedly less pro-Western. Primakov opposed NATO enlargement, promoted integrating former Soviet republics under Russian leadership, and favored cooperation with China, India, and other states opposed to U.S. "global hegemony." When Primakov became Prime minister in September 1998, he chose Igor Ivanov to succeed him as Foreign Minister. Ivanov kept that position until March 2004, when he was replaced by career diplomat Sergei Lavrov, formerly Russia's U.N. Ambassador.

During Putin's first year as president he continued Primakov's policies, but by 2001, even before September 11, he made a strategic decision to reorient Russian national security policy toward cooperation with the West and the United States. Putin saw Russia's economic revitalization proceeding from its integration into the global economic system dominated by the advanced industrial democracies — something that could not be accomplished in an atmosphere of political/military confrontation or antagonism with the United States. After 9/11, the Bush Administration welcomed Russia's cooperation against Al Qaeda and the Taliban regime in Afghanistan, which paved the way for broader bilateral cooperation.

Moscow remained unhappy about NATO enlargement in Central and Eastern Europe, but reconciled itself to that. NATO and Russian leaders meeting in Rome signed the "NATO at 20" agreement, in which Russia and NATO members were to participate as equals on certain issues. Russia reacted relatively calmly to NATO's admission of seven new members (May 2004), including the former Soviet Republics of Estonia, Latvia, and Lithuania.

After the collapse of the Soviet Union, a consensus emerged in Moscow on reestablishing Russian dominance in this region as a very high priority. There has been little progress toward overall CIS integration. Russia and other CIS states impose tariffs on each others' goods in order to protect domestic suppliers and raise revenue, in contravention of an economic integration treaty. Recent CIS summit meetings have ended in failure, with many of the presidents sharply criticizing lack of progress on common concerns and Russian attempts at domination. The CIS as an institution appears to be foundering, and in March 2005, Putin called it a "mechanism for a civilized divorce."

On the other hand, in October 2000, the presidents of Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan, and Tajikistan upgraded their 1992 Collective Security Treaty, giving it more operational substance and *de jure* Russian military dominance. In February 2003, the presidents of Russia, Ukraine, Belarus, and Kazakhstan agreed in principle to create a "single economic space" (SES) among the four countries. They signed a treaty to that effect in September 2003 but failed to agree on fundamental principles and terms of implementation. The December 2004 election of western-oriented Viktor Yushchenko as President of Ukraine seemed to kill the SES agreement, but Yushchenko's political reverses in 2005-2006 and the

appointment of a more pro-Russian Prime Minister in Kyiv in August 2006 put this matter in play again.

Russia and Belarus have taken steps toward integration. Belarusian President Aleksandr Lukashenko may have hoped for a leading role in a unified state during Yeltsin's decline. Lukashenko unconstitutionally removed the parliamentary opposition in 1996 and strongly opposes market reform in Belarus, making economic integration difficult and potentially very costly for Russia. In April 1997, Yeltsin and Lukashenko signed documents calling for a "union" between states that were to remain "independent and sovereign," and a year later, they signed a Union Charter. Lukashenko minimized his and his country's political subordination to Moscow. Yeltsin avoided onerous economic commitments to Belarus. After protracted negotiations, the two presidents signed a treaty on December 8, 1999, committing Russia and Belarus to form a confederal state. Moscow and Minsk continue to differ over the scope and terms of union, and Putin repeatedly has sharply criticized Lukashenko's schemes for a union in which the two entities would have equal power. The prospects for union seem to be growing more distant, especially after the sharp oil price dispute between the two governments in January 2007 that temporarily disrupted Russian oil deliveries to Belarus and westward into Europe.

Russian forces remain in Moldova against the wishes of the Moldovan government (and the signature of a troop withdrawal treaty in 1994), in effect bolstering a neo-Communist, pro-Russian separatist regime in the Transnistria region of eastern Moldova. Russian-Moldova relations warmed, however, after the election of a communist pro-Russian government in Moldova in 2001, but even that government became frustrated with Moscow's manipulation of the Transnistrian separatists. The United States and the EU call upon Russia to withdraw from Moldova. Russian leaders have sought to condition the withdrawal of their troops on the resolution of Transnistria's status, which is still manipulated by Moscow.

Russian forces intervened in Georgia's multi-faceted civil strife, finally backing the Shevardnadze government in November 1993 — but only after it agreed to join the CIS and allow Russia military bases in Georgia. Russia tacitly supports Abkhazian and South Ossetian separatism in Georgia and delayed implementation of a 1999 OSCE-brokered agreement to withdraw from military bases in Georgia. In 2002, tension arose over Russian claims that Chechen rebels were staging cross-border operations from Georgia's Pankisi Gorge, near the border with Chechnya. In 2002, the Bush Administration sent a small contingent of U.S. military personnel to Georgia to help train and equip Georgian security forces to combat Chechen, Arab, Afghani, Al Qaeda, and other terrorists who had infiltrated into Georgia. Tension between Moscow and Tbilisi sharpened further after Georgia's "Rose Revolution" catapulted U.S.-educated Mikheil Saakashvili into the presidency in November 2003. Saakashvili is an outspoken critic of Moscow and seeks to bring Georgia into NATO. Nevertheless, in July 2005, Russia concluded an agreement with Georgia to withdraw its forces from military bases it had occupied in Georgia since the Soviet era. The base withdrawal was completed in 2007, although the continued presence of Russian "peacekeepers" in Abkhazia and South Ossetia is strongly objected to by the

Georgian government.<sup>7</sup> In September 2006, Georgian authorities arrested four Russian army officers on charges of espionage. Although the Georgian government soon released the officers, Moscow imposed a broad economic embargo against Georgia and expelled hundreds of Georgians from Russia.

Moscow has used the Armenian-Azerbaijani conflict over Nagorno-Karabakh to pressure both sides and win Armenia as an ally. Citing instability and the threatened spread of Islamic extremism on its southern flank as a threat to its security, Moscow intervened in Tajikistan's civil war in 1992-93 against Tajik rebels based across the border in Afghanistan.

A major focus of Russian policy in Central Asia and the Caucasus has been to gain more control of natural resources, especially oil and gas, in these areas. Russia seeks a stake for its firms in key oil and gas projects in the region and puts pressure on its neighbors to use pipelines running through Russia. This became a contentious issue as U.S. and other western oil firms entered the Caspian and Central Asian markets and sought alternative pipeline routes. Russia's policy of trying to exclude U.S. influence from the region as much as possible, however, was temporarily reversed by President Putin after the September 11 attacks. Russian cooperation with the deployment of U.S. military forces in Uzbekistan, Kyrgyzstan, and Tajikistan would have seemed unthinkable before September 11. More recently, however, Russian officials have voiced suspicions about U.S. motives for prolonged military presence in Central Asia.

On July 5, 2005, the Shanghai Cooperation Organization (comprising China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan), approved a Moscow-backed initiative calling for establishing deadlines for the withdrawal of U.S. and coalition military bases from the Central Asian states. On July 29, the Uzbek government directed the United States to terminate its operations at the Karshi-Khanabad (K2) airbase within six months. Tashkent is believed to have acted not only in response to Russian and Chinese urging but also out of anger over sharp U.S. criticism of the Uzbek government's massacre of anti-government demonstrators in Andijan in May 2005.<sup>8</sup>

Of all the Soviet successor states, Ukraine is the most important for Russia. Early on, the Crimean Peninsula was especially contentious. Many Russians view it as historically part of Russia, and say it was illegally "given" to Ukraine by Khrushchev in 1954. Crimea's population is 67% Russian and 26% Ukrainian. In April 1992, the Russian legislature declared the 1954 transfer of Crimea illegal. Later that year Russia and Ukraine agreed that Crimea was "an integral part of Ukraine" but would have economic autonomy and the right to enter into social, economic, and cultural relations with other states. There was tension over Kyiv's

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<sup>7</sup> See CRS Report RL33453, *Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests*, by Jim Nichol.

<sup>8</sup> For more on Russian policy in these regions, see CRS Report RL33458, *Central Asia: Regional Developments and Implications for U.S. Interests* by Jim Nichol, and CRS Report RL33453, *Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests*, also by Jim Nichol.

refusal to cede exclusive use of the Sevastopol naval base in Crimea to Russia. Finally, in May 1997, Yeltsin and Ukrainian President Leonid Kuchma signed a Treaty resolving the dispute over Sevastopol and the Black Sea Fleet and declaring that Russian-Ukrainian borders cannot be called into question. This agreement, widely viewed as a major victory for Ukrainian diplomacy, was ratified in April 1999. Bilateral relations remain very important for both countries.

Ukraine's October 31, 2004, presidential election pitted the openly pro-Moscow Prime Minister, Viktor Yanukovych, against an independence and reform-minded candidate, Viktor Yushchenko. Putin strongly and openly backed Yanukovych and lent much material support to his campaign. Nevertheless, Yushchenko narrowly out-pollled Moscow's man in the first round. In the disputed run-off election on November 21, Yanukovych initially claimed victory and was publically congratulated by Putin. Evidence of widespread election fraud, however, sparked massive Ukrainian street demonstrations and strong U.S. and EU criticism, pitting Russia against the West in a way reminiscent of the Cold War. After Ukraine's parliament and Supreme Court threw out the results of the November 21 election, the re-run on December 26 was won by Yushchenko (52% vs. 44%). Many observers in Russia, Ukraine, and the West, saw this outcome (hailed as the "Orange revolution") as a powerful blow to perceived Russian hopes of reasserting dominance over Ukraine. Yushchenko declared integrating Ukraine economically and politically into Europe as his top priority.

Under Yushchenko, Ukraine opted out of the SES agreement promoted by Moscow. Ukraine, however, is economically dependent on Russia, especially for energy, although Kyiv also has some leverage in this area, as the main pipelines carrying Russian gas and oil to Europe pass through Ukraine. This troubled relationship leapt to prominence on January 1, 2006, when Russia stopped pumping natural gas to Ukraine after the two sides had failed for months to reach agreement on Russia's proposed quadrupling of the price of gas. This led to a sharp reduction in Russian gas supplies to Central and Western Europe, which pass through Ukraine. In response to strong European protests, Russia resumed pumping gas to and through Ukraine on January 3. The next day, Russia and Ukraine announced agreement on a complicated deal that doubled the price Ukraine paid for gas. Many analysts saw the outcome as strengthening Russian influence in Ukraine and politically weakening Yushchenko prior to parliamentary elections (March 26, 2006), in which Yushchenko's party won only 13% of the vote, finishing third among five major parties. After four months of political deadlock in Kyiv, Yushchenko appointed his 2004 arch-enemy, Yanukovych, Prime Minister in August 2006. Yanukovych, however, signed an agreement pledging to continue Yushchenko's policy of integration with the West, and Yushchenko was able to have pro-western members of his own party head the Ministries of Foreign Affairs and Defense. This arrangement broke down and in April 2007 Yushchenko triggered a political showdown by dissolving the pro-Yanukovych parliament and calling for snap parliamentary elections. After a prolonged standoff, the two sides agreed on elections in September, which resulted in a narrow victory for the old Orange Revolution Yushchenko-Timoshenko coalition. Yulia Timoshenko is the new Prime

Minister. It remains to be seen how these Ukrainian political developments affect the country's relations with Russia, the EU, and the United States.<sup>9</sup>

A Russian-Estonian political crisis erupted in April-May 2007 in connection with the Estonian government's relocation of a WW II Soviet war memorial from central Tallinn to a suburban military cemetery. The Russian government denounced this act as "fascistic" and "blasphemous." On the night of April 27, ethnic Russians in Tallinn — with Moscow's seemingly tacit encouragement — rioted, ransacking many commercial establishments. One Russian youth was stabbed to death. Moscow denounced Estonian "repression" of "peaceful Russian demonstrators," made numerous demands of the government in Tallinn, and called upon the EU to protest Estonia's actions. This was accompanied by extensive cyber attacks against Estonian government and commercial websites. The Russian state railway monopoly announced that due to a sudden scarcity of railway cars, all shipments of coal and oil to and through Estonia would be halted. The EU (of which Estonia is a member) backed Estonia and criticized Russia's political and economic pressure.<sup>10</sup>

## Defense Policy

### Fundamental Shakeup of the Military

The Russian armed forces and defense industries have been in turmoil since 1992. Their previously privileged position in the allocation of resources has been broken, as has their almost sacrosanct status in official ideology and propaganda. Hundreds of thousands of troops were withdrawn from Eastern Europe, the former Soviet Union, and the Third World. Massive budget cuts and troop reductions forced hundreds of thousands of officers out of the ranks into a depressed economy. Present troop strength is about 1.2 million men. (The Soviet military in 1986 numbered 4.3 million.) Weapons procurement virtually came to a halt in the 1990s and is only slowly reviving. Readiness and morale remain low, and draft evasion and desertion are widespread. Yeltsin and later Putin declared military reform a top priority, but fundamental reform of the armed forces and the defense industries is a difficult, controversial, and costly undertaking. The Chechen also conflict delayed military reform.

Putin has pledged to strengthen and modernize the armed forces, and appears determined to do so. At the same time, he appears to be aware of Russia's financial and material limitations. The decisions announced in August and September 2000 to greatly reduce Russia's strategic nuclear forces (from 6,000 to 1,500 deployed warheads), to shift resources from strategic to conventional forces, and to shift from a conscript to a volunteer force suggest serious intent to effect military reform.

Putin has made some changes in the military leadership that may lead to major policy changes. Sergei Ivanov, a former KGB general very close to Putin, was named

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<sup>9</sup> See CRS Report RL33460, *Ukraine: Current Issues and U.S. Policy*, by Steven Woehrel.

<sup>10</sup> See CRS Report RS22692, *Estonia: Current Issues and U.S. Policy*, by Steven Woehrel.

Defense Minister. Ivanov had resigned his nominal intelligence service military rank and headed Putin's Security Council as a civilian. Putin explained that the man who had supervised the planning for military reform (Ivanov) should be the man to implement reform as Defense Minister. In May 2004, the General Staff was taken out of the direct chain of command and given a more advisory role, a move that appears to strengthen civilian control.

The improvement of Russia's economy since 1999, fueled in large part by the cash inflow from sharply rising world oil and gas prices, has enabled Putin to begin to reverse the budgetary starvation of the military during the 1990s. Defense spending has increased substantially in each of the past few years. The officially announced 2007 defense budget was 821 billion rubles (\$31.6 billion), a fourfold increase since 2002. If one adds the funds allotted in 2007 for the nuclear, security, and defense-related law-enforcement activities to the total defense expenditures, total budget spending on defense reaches around \$58 billion.<sup>11</sup> Even factoring in purchasing power parity, Russian defense spending lags far behind current U.S. or former Soviet, levels. But Russia is beginning to resume serial production of major weapons systems, albeit at rates very far below Soviet Cold-War levels. Some high-profile military activities have been resumed, such as large-scale multi-national military exercises, show-the-flag naval deployments to the Mediterranean and the Atlantic, and strategic long-range bomber patrols that approach U.S. and NATO airspace.

Despite its difficulties, the Russian military remains formidable in some respects and is by far the largest in the region. Because of the deterioration of its conventional forces, however, Russia relies increasingly on nuclear forces to maintain its status as a major power. There is sharp debate within the armed forces about priorities between conventional vs. strategic forces and among operations, readiness, and procurement. Russia is trying to increase security cooperation with the other CIS countries. Russia has military bases on the territory of all the CIS states except Azerbaijan and is seeking to take over or share in responsibility for protecting the external borders of the CIS. In the proposed Russia-Belarus union, President Lukashenko pointedly emphasizes the military dimension. On the other hand, Georgia, Ukraine, Moldova, and Azerbaijan are shifting their security policies toward a more western, pro-NATO orientation.

## **Control of Nuclear Weapons**

When the U.S.S.R. collapsed in 1991, over 80% of its strategic nuclear weapons were in Russia. The remainder were deployed in Ukraine, Belarus, and Kazakhstan. Those three states completed transfer of all nuclear weapons to Russia and ratified the Nuclear Non-Proliferation Treaty as non-nuclear-weapon states by 1995-1996. All Soviet tactical nuclear weapons, which had been more widely dispersed, reportedly were moved to Russia by 1992. The command and control system for strategic nuclear weapons is believed to be tightly and centrally controlled, with the Russian president and defense minister responsible for authorizing their use. The system of accounting and control of nuclear (including weapons grade) material,

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<sup>11</sup> "Russia: Reviving The Army, Revising Military Doctrine," RFE/RL, March 12, 2007.

however, is much more problematic, raising widespread concerns about the danger of nuclear proliferation. There are growing concerns about threats to Russian command and control of its strategic nuclear weapons resulting from the degradation of its system of early warning radars and satellites. At the June 2000 Clinton-Putin summit, the two sides agreed to set up a permanent center in Moscow to share near real-time information on missile launches, but this has yet to be implemented.<sup>12</sup>

## U.S. Policy

### U.S.-Russian Relations

The spirit of U.S.-Russian “strategic partnership” of the early 1990s was replaced by increasing tension and mutual recrimination in succeeding years. In the aftermath of the September 11, 2001 attacks, the two nations reshaped their relationship on the basis of cooperation against terrorism and Putin’s goal of integrating Russia economically with the West.<sup>13</sup> Since 2003, however, tensions have reemerged on a number of issues that again strain relations. Although cooperation continues in some areas, and Presidents Bush and Putin strive to maintain at least the appearance of cordial personal relations, there is now more discord than harmony in U.S.-Russian relations. This has been highlighted by Putin’s increasingly sharp criticism of the United States in 2007.<sup>14</sup>

Russia’s construction of nuclear reactors in Iran and its role in missile technology transfers to Iran have been critical sources of tension with the United States. Despite repeated representations from the White House and Congress, which argue that Iran will use the civilian reactor program as a cover for a covert nuclear weapons program, Russia refused to cancel the project, which is nearly completed. Revelations of previously covert Iranian nuclear developments revived this issue, and some Russian political leaders criticized the policy of nuclear cooperation with Iran, giving rise to policy debate on this issue in Moscow. Moscow’s position is that it intends to continue its civilian nuclear power projects in Iran, while demanding that Tehran halt its uranium reprocessing and enrichment activities.

In late 2005, Moscow proposed a compromise plan to avert a showdown between Iran and the United States and the EU over Iran’s insistence on its right to reprocess uranium. The Russian proposal, which won luke-warm Bush Administration support, would allow Iran to reprocess uranium, in facilities on Russian territory, presumably subject to international inspection. After prolonged talks, Iran’s Foreign Ministry in March 2006 rejected the Russian proposal. The

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<sup>12</sup> See CRS Report RL32202, *Nuclear Weapons in Russia: Safety, Security, and Control Issues*, by Amy F. Woolf.

<sup>13</sup> For the change in Russian policy toward integration with the West and cooperation with the United States, see CRS Report RL31543, *Russian National Security Policy After September 11*, by Stuart D. Goldman, last updated August 20, 2002.

<sup>14</sup> See, for example, speech at the annual Munich security conference on February 10, 2007 and his annual address to parliament on April 26, 2007.

United States and an EU group (France, Germany, and the U.K.) won Russian (and Chinese) agreement to move the issue to the UN Security Council. After months of negotiations during which Russia argued that diplomacy with Iran would yield greater results than would sanctions, the Security Council agreed to U.N. Security Council (UNSC) Resolution 1737, passed unanimously on December 23, 2006, to impose some modest sanctions on trade with Iran's nuclear infrastructure and a freeze on trade with and the assets of ten Iranian entities and twelve individuals.<sup>15</sup> In response to Iran's continued intransigence on the uranium reprocessing issue, on March 24, 2007 Russia voted with the United States in the UNSC to toughen sanctions against Iran. Perhaps more significantly, Moscow also withdrew most of its technicians and scientists from the unfinished Bushehr reactor project, citing alleged Iranian arrears in payments for the project — a claim that Iranian officials denied. An attempt by the Bush Administration to win Russian (and Chinese) approval for a third round of UNSC sanctions in late 2007 proved unsuccessful. Administration hopes were further dimmed by the publication in December 2007 of Key Judgements of the National Intelligence Estimate on Iran that cast doubt on earlier U.S. assertions that Iran was unquestionably pursuing a clandestine nuclear weapons program. On March 3, 2008, Russia again voted with the United States, France, the U.K. and China in the UNSC to impose a third round of sanctions against Iran, but these “watered down” sanctions mostly called for voluntary application by UN members. More significant was Russia's decision to resume shipping nuclear fuel to Bushehr. Fuel delivery was completed on January 28, 2008. The reactor is expected to begin operation in late 2008 or 2009.

Since the mid-1990s, U.S. and Russian interests have clashed over Iraq. Russia strongly opposed military action against Iraq in connection with the U.N. inspection regime. After September 11, Moscow moved away from blanket support of Iraq. Some Russian officials suggested that under certain circumstances, U.S. military action against Iraq might not seriously strain U.S.-Russian relations — provided it was not unilateral and Russia's economic interests in Iraq were protected. As the United States moved toward military action against Iraq, Putin tried to balance three competing interests: protecting Russian economic interests in Iraq; restraining U.S. “unilateralism” and global dominance; and maintaining friendly relations with the United States. In February-March 2003, Putin aligned Russia with France and Germany in opposition to U.S. military action and threatened to veto a U.S.-backed UNSC resolution authorizing military force against Iraq. The U.S.-led war in Iraq further strained U.S.-Russian relations, but the senior leadership in both countries said that this would not be allowed to jeopardize their overall cooperation. On May 22, 2003, Russia voted with other members of the UNSC to approve a U.S.-backed resolution giving the United States broad authority in administering post-war Iraq.

A sharp U.S.-Russian clash of interests over missile defense, the ABM Treaty, and strategic arms reductions flared in the first year of the Bush Administration. These problems were substantially reduced, but not entirely resolved, at the Bush-Putin summit in May 2002. The Bush Administration declared its disinterest in START II and the ABM Treaty and its determination to pursue robust missile

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<sup>15</sup> See CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman.

defense. This approach was met with resistance from Moscow, but the Administration stuck to its policies and, despite skepticism from some Members of Congress and many European allies, gradually won Russian acquiescence on most elements of its program.

Moscow reacted negatively to early Bush Administration determination to press ahead vigorously with missile defense, although the atmospherics, at least, improved after the Bush-Putin summit in Slovenia on June 16, 2001. In December 2001, the Bush Administration gave Moscow official notification of its intention to renounce the ABM Treaty within six months. Russia's official response was cool but restrained, calling the U.S. decision a mistake, but saying that it would not cause a major disruption in relations. Similarly, in January 2002, Moscow reacted negatively to the Bush Administration's proposed plans to put in storage many of the nuclear warheads it planned to withdraw from deployment, rather than destroy them. Again, however, Russian criticism was relatively restrained, while the two sides continued intensive negotiations.

The negotiations bore fruit in mid-May, when final agreement was announced. Moscow won U.S. agreement to make the accord a treaty requiring legislative approval. The terms of the treaty, however, achieved all the Administration's key goals: deployed strategic nuclear warheads are to be reduced to 1,700-2,200 by 2012, with no interim timetable, no limits on the mix or types of weapons, and no requirement for destroying rather than storing warheads. The so-called Treaty of Moscow was signed by the two presidents on May 24, 2002. On June 13, the United States became free of all restraints of the ABM Treaty. On the same day, Moscow announced that it would no longer consider itself bound by the provisions of the (unratified) START II Treaty, which has become a dead letter. In June 2002, the commander of Russia's Strategic Rocket Forces announced that in response to the U.S. withdrawal from the ABM Treaty, Russia would prolong the life of its MIRVed ICBM force, which, he said, could be extended another 10-15 years. On June 1, 2003, Presidents Bush and Putin exchanged instruments of ratification allowing the Treaty of Moscow to enter into force. They also agreed to cooperate in missile defense. In November 2004, Putin announced that Russia was developing a new strategic nuclear missile superior to any in the world. The SS-27 reportedly combines a hypersonic boost phase and a maneuverable warhead, characteristics designed to defeat (U.S.) ballistic missile defenses.

A sharp new disagreement on missile defense emerged in 2007 in the form of Russian objections to Bush Administration plans to deploy a ground-based mid-course missile defense system (GMD) in Europe to help defend U.S. forces and allies in Europe against a possible long-range ballistic missile threat from Iran. The proposed GMD system would include 10 silo-based interceptors in Poland and a radar installation in the Czech Republic.<sup>16</sup>

Russian objections include the following arguments: a) the proposed GMD, situated close to Russia's borders, poses a threat to Russia's strategic nuclear

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<sup>16</sup> See CRS Report RL34051, *Long-Range Ballistic Missile Defense in Europe*, by Steven A. Hildreth, and Carl Ek.

deterrent and retaliatory capability and is really directed against Russia, not against some non-existent Iranian or North Korean threat; b) Russia was not adequately consulted about the GMD deployment; c) the GMD system, if deployed, will spur a renewed nuclear arms race; d) the proposed deployments in Poland and the Czech Republic violate earlier U.S./NATO pledges to Moscow not to establish new military bases in those countries; e) the missiles deployed in Poland could have offensive capability to strike targets in Russia; f) the radar in the Czech Republic could be used to “spy” on Russia.

Supporters of the GMD deployment dismiss these arguments as misinformed, spurious, or malicious. It is not clear to what extent, if any, competent Russian authorities believe these arguments, although there is deep underlying resentment of U.S. military deployments on the territory of Moscow’s former Warsaw Pact allies. Many U.S. and European observers believe, however, that Russia’s objections to GMD have other motives: a) to drive a wedge between the United States and its European allies; b) to drive a wedge between new NATO members such as Poland and the Czech Republic, which view Russia as unfriendly and potentially threatening, and West European NATO members such as Germany and France, which seek cooperation and partnership with Russia; c) to use GMD as an excuse to renounce certain arms control agreements that Moscow now finds militarily constraining, and; d) to use GMD to “change the subject” from western criticism of various Russian domestic and foreign policies to criticism of U.S. “militarism” and “unilateralism.”

Russian officials have threatened that Russia might “target” the GMD facilities in Poland and the Czech Republic. Russia has threatened to abrogate the 1987 Intermediate-Range Nuclear Forces (INF) Treaty if the GMD system is deployed in Europe. In his annual address to parliament on April 26, 2007, Putin cited the proposed GMD deployment as part of the justification for a “moratorium” on Russian compliance with the Treaty on Conventional Forces in Europe (CFE). In late May 2007, Putin warned that the U.S. GMD deployments threatened to spark a new arms race in Europe and called for an emergency European security conference in June to consider GMD and the CFE Treaty. This conference, in Vienna, Austria, ended in deadlock.

In a surprise move during the G8 summit in Germany (June 2007), Putin appeared to take up Bush’s offer to partner with the United States on missile defense. Putin suggested that Russia would not object to U.S. interceptor missiles in Iraq, Turkey, or at sea, and also floated the idea of using a Soviet-era radar facility in Azerbaijan, leased and operated by Russia, to help track and target hostile missiles that might be launched from the Middle East. Bush welcomed Putin’s shift on missile defense that reduced tensions on the issue. At a July 1-2 meeting in Kennebunkport, Maine, Putin expanded on his counterproposal by recommending that missile defense be coordinated through offices in Brussels and Moscow. He also suggested the possible use of a radar in south Russia and said that cooperation could be expanded to other European countries through the use of the NATO-Russia council — thus eliminating the need for facilities in Poland and the Czech

Republic.<sup>17</sup> President Bush responded positively to Putin's new proposal, but insisted on the need for the Eastern European sites.

On October 12, Secretaries Rice and Gates met with Putin and other senior Russian officials in Moscow and brought with new proposals aimed at defusing Russian opposition to GMD. These proposals reportedly included expanded opportunities for Russian cooperation in building the missile defense system and for Russian inspections of, and observers at, GMD sites. These proposals appear to have elicited some interest in Moscow, but it is not yet clear if they provide the basis for a break through. As of mid-December 2007, Russian officials are alternating between harsh criticism of GMD and demands for clarification and more concessions on the new U.S. proposals.

Moscow and Washington are cooperating on some issues of nuclear weapons reduction and security. Since 1992, the United States has spent over \$7 billion in Cooperative Threat Reduction (CTR or "Nunn-Lugar") funds and related programs to help Russia dismantle nuclear weapons and ensure the security of its nuclear weapons, weapons grade nuclear material, other weapons of mass destruction, and related technological know-how. During the September 1998 summit, both countries agreed to share information when either detects a ballistic missile launch anywhere in the world, and to reduce each country's stockpile of weapons-grade plutonium by fifty metric tons. In June 1999, U.S. and Russian officials extended the CTR program for another seven years. The two sides also agreed to each dispose of an additional 34 tons of weapons-grade plutonium, with the U.S. to seek international funding to help finance the \$1.7 billion Russian effort. The planned U.S.-Russian joint missile early warning information center in Moscow, however, has yet to be established. In April 2002, the Bush Administration decided not to certify that Russia was fully cooperating with U.S. efforts to verify its compliance with agreements to eliminate chemical and biological weapons. This could have blocked U.S. funding for some CTR programs, but President Bush granted Russia a waiver.

In September 2006, the United States and Russia resolved a long-standing dispute over liability issues that had threatened to disrupt an important bilateral nuclear nonproliferation program. The Elimination of Weapons-Grade Plutonium Production Program — designed to convert 68 tons of excess weapons-grade plutonium (enough for 16,000 nuclear weapons) into mixed oxide fuel for use in nuclear reactors, a form that cannot be used for weapons by terrorists or others — is now on track to continue. In November 2007, U.S. Secretary of Energy Bodman and Russian Federal Atomic Energy Agency Director Sergei Kiriyenko signed a joint statement outlining a plan to dispose of the 68 tons of plutonium.

On August 4, 2006, the U.S. State Department announced sanctions against the Russian state arms export agency, Rosoboroneksport, and the aircraft manufacturer Sukhoi, for alleged violations of the Iran Nonproliferation Act of 2000, thereby barring U.S. companies from dealing with those Russian entities for two years. Russian officials denounced the action as retaliation for their Venezuelan arms sales.

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<sup>17</sup> "Putin Expands On His Missile Defense Plan," *New York Times*, July 3, 2007; "Putin Proposes Broader Cooperation On Missile Defense," *Washington Post*, July 3, 2007.

In December 2006, the sanctions against Sukhoi were lifted, but those against Rosoboroneksport were reconfirmed for two more years, over Russian protests.

Despite continued tension between Washington and Moscow over Iran, Iraq, missile defense, and the future status of Kosova, both governments seek to preserve mutually advantageous elements of the cooperative relationship they built following the September 11 attacks. In March 2003, Senator Lugar introduced legislation to exempt Russia from the Jackson-Vanik amendment to the Trade Bill of 1974, action which would grant Russia permanent normal trade relations (PNTR) status and facilitate Russian accession to the WTO, but it received no further action. After years of difficult negotiations, U.S. and Russian officials concluded a U.S.-Russian trade agreement in November 2006, paving the way for Russian accession to the WTO. This means that the 110<sup>th</sup> Congress may address the issues of PNTR for Russia and the Jackson-Vanik Amendment. But approval of these measures is by no means assured. On February 21, 2007, Representative Lantos, Chairman of the House Foreign Affairs Committee, said in a Moscow press conference that he would work to “end the Jackson-Vanik process,” which he called a “relic of the Cold War.” As of mid-December 2007, no legislation to this end has been introduced.

## **U.S. Assistance**

From FY1992 through FY2007, the U.S. government obligated more than \$16 billion in assistance to Russia, including over \$3.7 billion in Freedom Support Act (FSA) aid for democratization, market reform, and social and humanitarian aid. Most of the rest went for CTR (Nunn-Lugar) and other security-related programs. But Russia’s share of the (shrinking) NIS foreign aid (FSA) account fell from about 60% in FY1993-FY1994 to 17% in FY1998 and has been between 15%-22% since then. The Administration requested \$148 million for Russian FSA programs in FY2003, \$93.4 million in FY2004, \$85 million in FY2005, \$48 million in FY2006 (which was raised by Congress to \$80 million), and \$58 million in FY2007. The Administration’s request for FSA aid to Russia in FY2008 is \$50 million.<sup>18</sup>

Both the FSA and the annual foreign operations appropriations bills contain conditions that Russia is expected to meet in order to receive assistance. A restriction on aid to Russia was approved in the FY1998 appropriations and each year thereafter, prohibiting any aid to the government of the Russian Federation (i.e., central government; it does not affect local and regional governments) unless the President certifies that Russia has not implemented a law discriminating against religious minorities. Presidents Clinton and Bush have made such determinations each year.

Since FY1996, direct assistance to the government of Russia has hinged on its continuing sale of nuclear reactor technology to Iran. As a result, in most years as much as 60% of planned U.S. assistance to the federal Russian government has been cut. The FY2001 foreign aid bill prohibited 60% of aid to the central government of Russia if it was not cooperating with international investigations of war crime

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<sup>18</sup> See CRS Report RL32866, *U.S. Assistance to Russia and the Former Soviet Union*, by Curt Tarnoff.

allegations in Chechnya or providing access to NGOs doing humanitarian work in Chechnya. Possibly as a result of Russian cooperation with the United States in its war on terrorism, the war crime provision was dropped.